

# The Free Market

*"If you don't create a free market, a black market will emerge"*



NEWSLETTER OF THE LITHUANIAN FREE MARKET INSTITUTE - [www.freema.org/Newsletter/index.phtml](http://www.freema.org/Newsletter/index.phtml)

## NEWS

### LFMI is analysing economic causes of smuggling

In April the Lithuanian Free Market Institute (LFMI) launched a project on smuggling which is aimed at encouraging debates about economic causes of smuggling and the most effective ways of reducing smuggling and the related shadow economy both in Lithuania and the European Union (EU).

As part of the project, LFMI conducted a sociological survey with a view to ascertaining public opinion about smuggling of excisable goods and other taxed goods (tobacco, alcohol, fuel, and sugar), public tolerance towards smuggling, the scope and trends of smuggling, public opinion about primary and secondary causes of smuggling and about the effectiveness of public policy, administrative and legal measures designed to combat corruption and smuggling.

As the survey showed, the majority of Lithuanian population believe that the major causes of smuggling in Lithuania are price differences between the neighbouring countries determined by high taxes (excise duties). Corruption and overly complicated environment to perform legal business activities were named as other important factors of smuggling. According to the survey, people in Lithuania are rather tolerant towards smuggling: nearly half of those polled (47 percent) completely justify or tend to justify smuggling, while the other half (47.8 percent) uphold the opposite view. It is interesting to note that those who completely justify smuggling are twice as many as those who completely disapprove of it.

LFMI also conducted analytical research aiming to assess the existing tax, regulatory, administrative and legal factors of the market of excisable goods and their implications for the operation and trends of the market and smuggling of excisable goods. Based on the research findings, LFMI formulated conclusions that would help create and implement policies to reduce smuggling of excisable goods. LFMI concluded that primary reasons for smuggling are high prices of goods that are determined by high excise duties and extensive, cumbersome and unpredictable licensing and regulation. That is why scrapping redundant regulation and licensing and striving for the reduction of excise duties at the EU level would serve as the most effective tool in combating smuggling.

To present project results to the public and the decision makers, LFMI held two press conferences and staged a major international conference "Economic causes of smuggling. Challenges for the new European Union," July 1, 2004. Apart from the said issues, participants of the event analysed the situation of smuggling in Lithuania and the neighbouring countries, its causes, the experience of foreign countries in struggling against smuggling, as well as EU tax policy, motives,

development and trends of heavily taxed goods. The audience comprised approximately 100, including members of parliament, high-ranking government officials, ministry executives, leading business people and representatives of major business associations, international institutions, academia and mass media.

After joining EU, Lithuania became responsible for EU's external border of almost 1000 km. For this reason, issues of fighting smuggling and border control are very pressing and interest the EU. LFMI thinks that the issues of combating smuggling should be included among top priorities on the agenda of Lithuania's representatives in the European Parliament because Lithuania's good reputation in the new Europe will depend on its abilities to harness increased smuggling. LFMI highlights that the influence of economic factors – heavy burden of excise duties and broad regulation – on smuggling is crucial, therefore it is vital to start eliminating them because administrative methods and means of tightening border control alone fight only with the consequences, therefore they will not help fight smuggling which is causing increasingly disastrous results.

The findings of the project will be posted online at: <http://www.freema.org/Projects/Contraband.phtml>.

### LFMI's Handbook for 2004-2008 MPs and their voters is underway

In summer 2004 LFMI will publish a book *Knyga 2004–2008 metu Seimo nariams ir rinkėjams (a Handbook for 2004-2008 MPs and their Voters)* which is aimed at inspiring the pre-election debates about values, goals and ways leading to them as well as to encourage quick and viable changes right after the election. This book presents a kind of digest of LFMI's work since its inception, outlining the institute's position and insight in all areas of its expertise. This book is expected to be a valuable guide for political parties in preparing well-considered programmes for the Year 2004 parliamentary elections. It will also help voters judge how viable and realistic electoral promises are.

The book presents comprehensive analysis of main public policy issues and assessment of policy pursued to date and offers a clear, consistent framework for a policy reform agenda. The publication covers ownership protection, privatisation, prices, competition, consumers' rights, company law and business regulation, money and banks, taxes, trade with EU and other countries, labour policy, corruption, social security, health care, state finances, agriculture, legislature, knowledge economy, and others.

The book will be presented at a round-table discussion on 2 September 2004 which will draw political and business leaders, media representatives, policy analysts and political scientists. LFMI will also launch a dissemination campaign that will be targeted to enhance public understanding, to stimulate well-informed debates and to facilitate the adoption of well-judged decisions during the election process.

LFMI first published such type of book four years ago which was tailored for MPs and voters of the year 2000 parliamentary elections and presented analysis of, and solutions for, the then economic and social policy.

### **LFMI will analyse electoral programmes for parliamentary elections**

In autumn 2004 LFMI and the Institute of International Relations and Political Sciences will implement a joint project which is aimed at analysing electoral programmes submitted to the parliamentary elections of the year 2004. This project is designed to offer a structured approach to creating electoral platforms and stimulating informed public debates and prudent involvement in the election process, thus promoting sustainable, consistent and predictable policy reforms for the benefit of people's welfare.

The specific objectives are to write material *Agenda 2000* and to disseminate an independent assessment of electoral platforms and to provide timely and effective expert advice to voters. A broad dissemination campaign will be designed to increase people's awareness of electoral promises and their viability and help them make well-informed electoral decisions.

### **LFMI releases the 13th survey of the Lithuanian economy**

In April LFMI released the 13th survey of the Lithuanian economy, based on market participants' 2003 estimates and updated forecasts for 2004. This Lithuanian-English study analyses GDP growth, the shadow economy, foreign trade, price changes, unemployment, the tax burden, the projected LTL/USD exchange rate, earnings, household income, savings and investments, the profit margin, return on equity, reinvested profits, interest rates, etc. Launched in 1997, the LFMI survey is based on the expert consensus paradigm originating from the theory of rational expectations

The survey conducted in January-February this year shows that in 2003 the Lithuanian economy grew rapidly; the financial situation of Lithuanian companies improved and the costs of borrowing declined. Market participants predict the year 2004 will see a rise in earnings, a more rapid growth of household income, continued improvements in corporate indicators and rising costs of borrowing.

### **Tax Freedom Day Receded and Came on May 8th in 2004**

According to LFMI's annual calculations, Tax Freedom Day in Lithuania is receding: it fell as late as on May 8 this year. In 2004 the average Lithuanian taxpayer had to work 128 days to pay the total tax bill imposed by all levels of government.

The Tax Freedom Day is a symbolic day in the year when the average income earner stops handing over all his income to the government, and begins to make money for himself. It is an indicator of the tax burden in relative terms which shows what portion of the value created by the people is taken by the government to be distributed through the national budget and non-budget funds. LFMI calculates the tax burden as the ratio of total tax revenues to net national product (NNP).

This year Tax Freedom Day arrived even six days later than in 2003. This increase in the tax burden was determined by total tax revenues which were nearly 2 billion litas bigger as compared to the year before. Another reason was a sluggish NNP growth due to sizeable capital consumption and markedly increased negative net income. The tax burden, calculated as the

ratio of total tax revenues to NNP, will account for 35 percent in 2004, as compared to 33.3 percent in 2003.

LFMI started the tradition of commemorating Tax Freedom Day in Lithuania in 1993. Since 1993, when the Lithuanian taxpayers turned to the government everything they earned until April 13, Tax Freedom Day has moved later in the calendar. Starting from 2001, Tax Freedom Day came earlier every year: on May 15 in 2001, on May 4 in 2002 and on May 3 in 2003.

### **Lithuanian free-marketeer ranks among ten people who have changed Lithuania**

As Lithuania was approaching EU membership and looking over the events of the last decade, the leading Lithuanian weekly *Veidas* released a list of ten individuals who have changed Lithuania. LFMI founder and chair of the board Elena Leontjeva was listed among such personalities as Former Presidents of the United States and the Soviet Union Ronald Reagan and Mikhail Gorbachev, Lithuanian Cardinals Vincentas Sladkevicius and Audrys Juozas Backis, diplomat Stasys Lorozaitis, poet and moral authority Justinas Marcinkevicius, former heads of state Vytautas Landsbergis, Algirdas Brazauskas and Valdas Adamkus and EU Commissioner Gunter Verheugen.

It was not only the spiritual revolution. Ground of the new economic order had to be laid, writes *Veidas* about the events of 1990-ies, and it was the Lithuanian Free Market Institute that showed the way. "The Lithuanian Free Market Institute, headed by Elena Leontjeva for more than ten years, brought about the most visible change in enlightening the government and the public about the advantages of the free market," – writes *Veidas*. The article elaborates on some of the most celebrated achievements of the past. Leontjeva's active involvement gave material results ten years ago when the Government listened to the advice of the Lithuanian Free Market institute and adopted a currency board system. Today it is even difficult to evaluate the profundity of the change that this move has made.

The weekly also cited Ms. Leontjeva's indubitable merit in reducing bureaucracy and eliminating business constraints as well as her contribution to the economic enlightenment of the society, the youth in particular.

Ms. Leontjeva, who now lives away from the public eye and is writing fiction, said that being on the list of the distinguished ten came to her as a wonder and a reward. "To be ranked among such statesmen is a reward, especially for a person who chose to serve people from an independent non-governmental institute. It is true governments came and went, while we had to stay and to continue patiently our work both with them and with people who were impatient to live a better life. Sometimes I felt like a bridge between and beneath different governments and now in retrospect I understand that it was what people call moral responsibility. It feels good to know that people have acknowledged the load that we kept carrying through the years of reform. But my thoughts are in the future."

### **LFMI's President took part in annual events of the US two most famous NGOs**

On April 28-29 LFMI's President Ugnius Trumpa participated in the 4<sup>th</sup> Annual Liberty Forum, Chicago, United States, organised by the Atlas Economic Research Foundation. The event is traditionally held to create one of the best networking opportunities of the year for think tank leaders and their allies.

During a session on think tank strategies, Mr. Ugnius Trumpa delivered a presentation on communication strategies

“Positioning Your Institute to Achieve Real Policy Impact.” LFMI’s President used an allegory of a lighthouse in describing the nature of think-tanks: “Think-tanks should be as lighthouses for reforms in societies. They are essential for navigation of reforms; they do not navigate themselves but lead navigation, firmly standing on the foundations of ideas and principles.”

Mr. Trumpa pointed out that think-tanks should be government-focused but not government-driven, in order to retain a distance needed for rational analysis and criticism. They should be apolitical and co-operate equally well with all parties and coalitions and to propose ideas and reforms that they themselves strongly believe in, without politicking and distorting them.



LFMI’s President said that think-tanks can become credible sources of information for the mass media and their consumers only by providing outright and honest comments and evaluation of processes ongoing in society. In Mr. Trumpa’s opinion, think-tanks should ensure transparency of their funding:

supporters should finance general ideas that are needed for wide circles of society and to avoid in their activities lobbyists’ interests and funding from them.

One of the sections was devoted to introducing the Templeton Freedom Awards Program 2004 Winners. During the ceremony LFMI’s President Ugnius Trumpa was awarded a prize of the Templeton Freedom Awards Program which was given to the Lithuanian Free Market Institute in the category of Institute Excellence. Three institutes from The Czech Republic, Slovakia, and Serbia & Montenegro were other organisations from Eastern Europe which were granted the same award. Over 140 institutes from more than 50 countries took part in the Templeton Freedom Awards Program. (In the picture: at the ceremony of the Templeton Freedom Awards giving (From the left) Alejandro A. Chafuen, President & Chief Executive Officer, Atlas; Ugnius Trumpa, LFMI’s President, and Leonard P. Lingio, President of the Mont Pelerin Society).

On April 29-30, LFMI’s President Ugnius Trumpa also took part in the Annual Meeting of the Heritage Resource Bank, Chicago, which is held each year by the Heritage Foundation following the Atlas Liberty Forum.

The Heritage Foundation’s Annual Resource Bank Meeting gathers more than 500 think tanks executives, public interest lawyers, policy experts, elected officials, and activists from around the world to discuss issues, strategies, and methods for advancing free market, limited government public policies. This year the theme of the event was „The Road to Serfdom After 60 Years: Are We On the Road to Prosperity?.”

### **LFMI representatives attend a summit of the world’s leading market liberals**

On April 8-9, 2004 LFMI’s President Ugnius Trumpa, Chair of Board Elena Leontjeva and former Vice-President Ruta Vainiene participated in an international conference “A Liberal Agenda for the New Century: A Global Perspective,” Moscow. The event was organised by Cato Institute, co-sponsored with the Institute of Economic Analysis and the Russian Union of Industrialists and Entrepreneurs.

The conference drew the world’s leading market liberals such as Leszek Balcerowicz, Former Minister of Finance, Poland; Ruth Richardson, Former Minister of Finance, New Zealand; José Piñera, International Centre for Pension Reform and Former Minister of Labour and Social Security, Chile; Andrei Illarionov,

Economic Advisor to President Vladimir Putin, Russia; and others. They gathered at this important conference to bring perspective on reform accomplishments and to highlight outstanding issues that are fundamental to achieving freedom and prosperity.

LFMI’s Chair of Board Elena Leontjeva delivered a presentation on the topic “Promoting Economic Freedom: What Have We Learned?” (it can be accessed at: <http://www.freema.org/Events/Papers/el.phtml>).

LFMI is mostly thankful to International Policy Network (IPN) and its director Julian Simmons and Kendra Okonski for the financial assistance in attending this extraordinary event.

### **LFMI’s board has appointed a new vice-president**

On May 1 of this year, LFMI’s Senior Policy Analyst Dr. Remigijus Simasius was appointed LFMI’s Vice-President, replacing LFMI’s long-term Vice-President Ruta Vainiene who stepped down in decision to take up a position in a different sphere.

Ms. Vainiene has worked at the Institute since its inception in 1990 and has headed its team of policy analysts for the last nearly five years. At her resignation she said she would remain a faithful advocate of the free market ideas and expressed a strong belief that the future would belong to them.”

Mr. Simasius has been with LFMI since 1996. He is an expert of fundamental economics and the theory of law and has gained recognition from both Lithuanian and international audiences. Being an authority on the non-government sector principles and activities, he has taken an active part in building legal foundations of the third sector, has headed a working group on legislature, has contributed to crafting the guidelines for pension reform and has been promoting the ideas of liberty in other spheres.

### **LFMI completes a project on the information society**

LFMI has completed a project joint project “Factors and Impacts in the Information Society: a Prospective analysis in the candidate countries.” Its goal was to make an in-depth analysis of challenges and potentialities related with the EU enlargement by identifying technological, economic, political and social drivers and their impact on science and technology policy, competitiveness and employment in the wider Union over a ten-year horizon.

A contracting authority of this project was the Institute of Prospective Technological Studies, Seville, one of the seven institutes of the Joint Research Centre of the European Commission. Its main mission is to provide prospective analyses in support of the EU’s policy making-process. Thirteen candidate countries were taking part in this project; Lithuania was represented by the Lithuanian Free Market Institute. As a result of this project, 13 national monographs were developed. They will be incorporated into an integrating and prospective report about the future outlook for the information society in the candidate countries and the enlarged EU. The report will be conducted by the International Centre for Economic Growth, Budapest.

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*In the following article two essential documents of the European Union – the Lisbon Strategy and the EU Constitution – are analysed by focusing on their economic and social objectives. The article was printed at the end of 2003 in a Lithuanian bimonthly magazine for intellectuals, Naujasis Zidiny-Aidai.*

## European “Projects”

By Guoda Steponaviciene, Vice-president, LFMI

### *Instead of a preface. Observations*

Observation No.1. As a leading Lithuanian business daily wrote about the “Green Paper” on the EU entrepreneurship by the European Commission, “the EC believes that business policy should support not only the business environment but also the vitality of business. It is planned to do so by increasing entrepreneurs’ motivation and by helping them obtain necessary skills. The EC would like to focus on individuals as potential entrepreneurs, analyse the possibilities of business growth and teach the society to appreciate entrepreneurship” (*Verslo ziniuos*, 06/08/2003).

We have almost accustomed to movements of export and investment promotion, although this haven’t made such policy economically more consistent. Well, at least the results of such phenomena can be calculated. However, a natural and inevitable question is how to promote entrepreneurship. First, we should have in mind what kind of individuals become entrepreneurs. Primarily it is such people who wish to make their own decisions more than they fear to do so. Those who prefer listening will probably become business consultants rather than businesspeople. The second questionable ambition is to analyse the possibilities of growth of companies. Such analysis is usually being done by business consultants at a particular company’s request; the results are later discussed by the company’s board which either makes use of it or not and locks the analysis in a safe. Third, if we believe that state institutions are able to teach society to appreciate entrepreneurship, then why don’t they try to teach society to appreciate, for instance, kindness, generosity, honesty?.. This would be unbeatably more effective.

Observation No. 2. After conducting a comprehensive scientific research on why the best European scientists are leaving the Old Continent in hope of a better life in the US or other states, the European Commission decided that A Charter of the Young European Scientist will facilitate human resource and career management in research area, that Education Code of Scientists will be effective in Europe, that a registration system of the achievements of professional scientists will be designed, that the basis for social dialogue among scientists will be created, and that adequate financing for the graduates and minimum social guarantees will be ensured.“

Did anyone understand at least one of the said measures? I didn’t. It is even more unclear how these measures will change the motivation of the talented researchers. What could be the basis for the social dialogue of the scientists? Nice cafeteria? Free lunch? Cigarettes and coffee? Discounts on plain tickets? And what is the point talking about minimum social guarantees in the EU if the existing ones are already far from minimum?

Observation No. 3. When looking for scientific research financed by the EU, I came across the following one: “Network of Excellence on gender relation issues in agriculture.” The project is being implemented at the farm-women network of the Agricultural Research Institute in Cyprus under the subject: citizens and government in the knowledge society. To write comments justifying such a project would be very difficult. I don’t think I could do that.

Observation No. 4. In October 2003 Finnish and Swedish officials and the media called Estonia “a little predatory country that has nothing in common with the Nordic States” because of its existing taxes. Estonia has earned such epithets primarily for abolishing the profit tax and for relatively low rates of other taxes. The EU constantly comes up with initiatives regarding further harmonisation of taxes which would include the direct taxes as well – seeking that countries do not engage themselves in harmful competition. Perhaps this is the manifestation of solidarity among the states? We say, thank you, we do not need investments, new companies, and better technologies because this would harm poor Germans or French – it would reduce their salaries, social guarantees or possibilities to realise their positive rights. No, it looks more like the philosophy of a lord: I will not allow my neighbour release his serfs because mine will want the same, too.

### *The third way: the wolf is satisfied and the sheep is alive*

These “observations” show that Europe is lacking everything: companies lack competitiveness, people lack entrepreneurship, scientists lack talent, and Europe lacks scientists, entrepreneurs and, finally, taxpayers. There are no people to work and earn pensions, unemployment and social allowances, which could “enable people [...] to live without losing their dignity.” It seems it is only the dignified that Europe is not lacking.

Europe is getting older, irrespective of labour productivity, and lazier, regardless of age. Europeans want to work less and under better conditions, earn more and risk less, have more rights and more free time. Looking at these wishes, many Lithuanians would come to realise they are real Europeans. However, there is such a nasty law of limited resources and such nasty science of economics that constantly reminds of this law.

People have been concerned about limited resources for ages. Shaking lambs that produced golden coins, brownies, table-cloths with food emerging on it, various fishes that make your dreams come true, fairies and wizards, and, finally, treasures in desert islands or in your own cellar – all these were the tools to turn an ordinary man into a hero. The hero gets the princess, half of the kingdom and then can live happily ever after. Hardly any character could make do without these magic things. Others resorted to some smarter methods to expand the resources: they drank the invigoration drink, found rescue in life potion, flew, travelled in time, or became invisible. One can rarely become a hero without miracles; one can only become a businessman without them. Since in Europe the goldfish have been divided into fishing quotas, the lambs have been earmarked, and swamps have been drained, the room for miracles is shrinking. It seems as if the time to change the hero’s career into a businessman’s, but that desire to just live happily ever after does not leave us in peace.

Lithuania's former chief negotiator Mr. P. Austrevicius have said once: „Membership is a set of instruments. It does not change the laws of economics.“ That is logical. Yet, one gets to doubt increasingly more about whether many people think the same way.

The goals of the EU's key documents – the European Constitution and the Lisbon Strategy – are formulated in such a way as if economic laws did not exist at all. As if material resources were unlimited and personal motivation could be swapped like socks. Let us have a closer look at the economic and social objectives raised in these two essential documents.

### ***Targets of Lisbon***

The main target of the Lisbon Strategy is to achieve that within a decade the EU becomes “the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion.” This formulation reflects the key focuses of the strategy: competitiveness, economic growth, employment and social cohesion. Competitiveness, as any other economic category, has been discussed in piles of studies and books, but in practice this term is quite clear: it is the ability to compete, i.e. spend less and earn more. We can also guess what economic growth (or the growth of GDP) is: it means new supermarkets - always crowded with customers, city streets being repaired, ongoing constructions, more cars on the streets and so on. Economic growth does not always reflect in your own pocket, particularly if you do not work efficiently; yet, if you look around, such reflections can be noticed and it is possible to understand where they come from. Employment is also quite a clear phenomenon that can be evaluated by the number of relatives and friends who have jobs. But how does the social cohesion look like? Is it when we live in poky blocks of flats? Theoretically, no, but, I'm afraid, that in practice it is yes.

The Lisbon strategy sets the target to promote social cohesion, i.e. to achieve that differences of welfare were diminished. For this purpose, various political measures are applied, and taxes in the first place, because their purpose is to collect money to the budget and to redistribute it the way redistributors feel is right and fair – for subsidies (e. g., agriculture), various benefits (e. g., pensions), allowances, social programs (e. g., drug prevention) and the so-called public welfare (roads, education services and so on). If those taxes are progressive (which they are in EU countries), redistribution is even more extensive: people with higher income pay taxes that are higher than those paid by people with lower income not proportionally but progressively, i. e. not just the amount of taxes is higher but also the percentage of the income. Social cohesion is increased by special allowances and subsidies for certain social groups (e. g., the unemployed) or people with low income. Besides, various tax privileges (e. g., bigger non-taxable minimum), price subsidies (subsidised rent, compensations for utility services, compensations for medicines, and transport discounts), social services, etc. are applied.

It is a different issue whether and to what extent these measures increase social cohesion. What is more interesting here is that this target is presented along with the goal of competitiveness. This implies the belief that social cohesion can be increased without affecting competitiveness and economic growth. Following the logics of economy, it is

impossible to enhance social cohesion by direct policy measures without affecting economic goals, and if we were to choose between these two targets, economic growth must be given priority, since no social welfare can be achieved without it. This is particularly obvious in post-soviet countries which, according to the evaluations of the European Commission, have finished transitional from planned economy to market economy. In other words, they have finished transition from social cohesion to a state of growing economy.

Some targets of the Lisbon Strategy prompt a complete surprise. For instance: “to create preconditions for the flourishing of e-commerce” - why not flourishing of commerce in general? “To promote third generation mobile services” – it sounds strange, having in mind that they have come to a deadlock just because of the big license fees and other public obligations. “To increase expenditure for research and development to 3 percent of GDP by 2010” – there will surely be no lack of those able to “absorb” this money, but what kind of research will they produce? “To achieve that the business share used for financing research and development went up to two-thirds of the total amount by 2010” – perhaps it's better just to write it off from their bank accounts as delayed taxes?

Yet, the most interesting are the targets of social cohesion.

“To provide conditions for all to use resources, rights, goods and services: social security systems must guarantee that everyone could live as human dignity requires and that employment would guarantee higher income; to implement measures that would allow everyone to purchase an appropriate housing with conveniences according to local conditions, receive health and long-term care services, receive education, legal consulting and other public and private services, including culture, sports and leisure.”

First of all, using a popular term of human dignity in economic contexts is incorrect in principle. Human dignity is a spiritual category which does not depend on material factors at all. Therefore no economic conditions can destroy human dignity and no economic measures can create it. And despite our sincere indignation at poverty, no social security systems can guarantee life, such as human dignity requires.

Second, since all the earlier mentioned benefits are limited, it is possible to create preconditions for using them only to a certain degree, but not absolutely. This degree is basically determined by economic potential of a particular country: the richer the people, the more goods, services and resources they can purchase and the more positive rights they can exercise, and people do that according to their priorities. When the state starts “realising” these rights, it can happen so that pigs will be “realising their right to sports and leisure,” while people will be unable to get or even buy proper medical treatment.

“To apply political measures that help avoiding life crises, such as indebtedness, expulsion from school or loss of home.”

Even if we came to believe that political measures might help to avoid some of the life crises, we would be forced to acknowledge that it concerns only certain predictable crises (how else would support measures be created?). Since life crises are individual in each separate case (although social engineers believe otherwise), the state will not help to avoid all of the crises; yet, wide application of such measures and advertising may create the illusion of safety. Expecting to receive help in any crisis and when facing a crisis that is not

envisaged in policy measures, people will be completely unable to cope with it. It is impossible to isolate people from all potential crises, and partial safety “protects” people from developing skills of how to avoid them (such results of active social security policy can already be observed in the countries with old traditions of the welfare state). Attempts to achieve these specific targets by policy measures find place in Lithuania, too: a proposal regarding obligatory screening of all schoolchildren for drugs can be attributed to similar initiatives.

“To apply measures that would help maintain family solidarity in all forms.”

The formulation of this target in an overall context of EU’s politically correct speaking sounds nearly sarcastic. But it is the active measures of social policy of the welfare state that destroy the solidarity of families by offering payment for taking care of their own family members at home, additional incentives for women’s employment, long-term care of dependant people at specialised institutions and, in particular, by paying allowances to children. Those additional incentives further distort people’s motivation in taking basic family-related decisions and destroy the solidarity of families.

Lithuania has also started implementing the Lisbon Strategy. Like a number of other strategies, inter-sectorial and long-term strategies in particular, it is being approached formally: all policy measures taken by the ministries are placed in the implementation plan by fields, without analysing their objectives and the latter’s attainability by these measures. For instance, to increase competitiveness, it would be quite logical to plan bigger investments into training centres of the Labour Exchange or into the establishment of some competition board. On the one hand, it would be a waste of resources. On the other hand, such a formal approach protects from more sophisticated and thus more harmful measures of social engineering. But for how long? Application of “good practice” and “benchmarking” is so popular in Europe after all, so it will not take long to learn the ways to protect people from life crises or preserve family values by policy measures. I wonder if these will include “friendly trials” for alcohol-addicted fathers. Just add “and mothers” and it will suit the general style of collective agreements, the role of trade unions and public responsibility.

Many may argue – why then it works in EU countries? It’s true, people in many European countries are interested in problems plaguing society, and bureaucrats are more helpful and less corrupted there. Still, even there governments are unable to handle people’s personal life crises or preserve family values, even if it assigns huge amounts for doing that. The motivation of young people to manage their life by themselves is diminishing, the number of dependants is growing and those willing to start their own business become a national rarity. This is a key reason why the EU is lagging behind the US in the field of innovation and productivity.

### ***European Constitution***

A draft Treaty establishing a Constitution for Europe (unanimously adopted by the European Convention in 2003) lays down the following common goals, *inter alia*, of the Member States are set forth and to achieve them powers in the EU are granted. These goals are: sustainable economic growth, social market economy, high competitiveness and striving for full employment and social progress; promotion of research and technologies; social justice and social security; equality of

men and women; solidarity of generations; economic, social, territorial cohesion and solidarity of the Member States.

First of all, most of the targets identified here are very vague. What does sustainable economic growth mean? Does it mean that it might be too great and in such a case political measures to reduce it would be applied? But how? By limiting production through quotas? By increasing taxes? In that case, it would be good to know in advance where this limit is, so that we don’t overdo.

What does social justice and progress mean? Does it mean that everybody has equal rights to work or equal rights not to work? Does it mean that allowances are paid both to individuals in real and in formal need, or that they will get an equal share? What does equality of men and women mean? Does it mean that all will have to carry equal boxes and equally represent people in the Parliament, or will they have equal rights to perform this according to the law? There is a heap of other questions whose different answers would fundamentally change the contents of provisions and policy measures dictating them.

Second, some of the targets are at odds with each other. Seeking of full employment obviously contradicts such targets as competitiveness and family solidarity. Employment can never full because there are always people who do not seek for jobs, although they are employable. The motivation to behave like this is boosted directly by social support and guarantees provided by the welfare state. Targeted inclusion of certain social groups into the labour market directly destroys family solidarity which is supposed to be rescued. By the way, women’s employment in Lithuania is already exceeding the EU average. It is also important to have in mind a detail that all these measures for “increasing,” “promoting” or “equalising” cost taxpayers’ money.

The pursuit of all kinds of cohesion and equality, including gender equality, also runs counter to competitiveness because it means that individuals/companies/regions do not use their competitive advantages but instead rely on faculties that are equal. The bitter fate of solidarity is being illustrated by the crisis of the pension systems in European countries which - whether dealt with or not - set different generations against each other.

The Constitution’s section on values enumerates: respect for human dignity, freedom, democracy, equality, superiority of the law and human rights. These values are said to be characteristic of the pluralistic, tolerant, fair, solid and non-discriminating societies of the Member States.

Some people miss Christian values. No wonder that they miss them. After all, both values and laws are trade-off values and laws. But neither of them tolerates trade-off. It is just that “sustainable” values vanish, and laws punish (by lower income in the first place).

So, when the wolf is satisfied and the sheep is alive, we should seriously get concerned about the shepherd.

### ***About the shepherd***

It is time to explain what this entrepreneurship is needed for. It would be natural to think that for everybody: the more enterprising people are, the more value will be created and the more people will participate in creating this value; therefore, people’s welfare will increase. But, as mathematicians say, whatever seems obvious can and must be proved. There is also a different opinion professed by the

ideologists of social democrats and not just them. True, entrepreneurship is needed because then more value will be created and more people will participate in creating it, therefore... more taxes will be collected. Having collected more taxes, it will be possible to redistribute more – people will feel happy then and will let those in power live long and keep expanding. And the latter do not believe that high taxes are bad for the economy because they undermine the motivation to work. On the contrary, the more an individual earns, the higher taxes should be imposed on him. Remember the saying: those who carry get the burden. And then, being sucked in a whirlpool of amplifying expenses (because the higher the salary, the higher the social status: designer suits, new cars for you and your spouse, tennis for your children, prestigious sports clubs, etc...), you work increasingly more without days-off or holidays until you finally die before you reach the retirement, most probably, of a heart attack. What a perfect client for the state – high income and no costs: no allowances or compensations for medicines or health care services (does a busy working individual have time to stand in a queue in public health centres?), and even pension doesn't have to be paid. Indeed, following such logics, the above mentioned contradictions between competitiveness and cohesion disappear, and the laws of economy don't work any longer.

It's difficult to say whether this is a real explanation to contradictions and paradoxes of EU policies. There are always two explanations of some negative actions: either it is done on purpose, pursuing certain interests, or because of ignorance. The results may be the same but it would be nicer to think that the reason is ignorance. At least there would be nothing to be angry about. As my colleague puts it, integration into, and membership, of the EU (just like the entire political action in general) follow the bicycle principle: in order not to fall off, one has to pedal all the time – to solve real or imaginary problems. But one cannot go far without thinking, therefore every one will be discontented. But not entirely, just a little bit. The discontentment is distributed among all, so that its concentration is smaller (yet another application of solidarity law).

However, there is one good “but” which can turn this entire version here into nothing, whether deliberately planned or spontaneous. I am talking about that same human dignity, which, being impervious to economic factors, may suddenly lead an individual out of this whirlpool of the expenses. The history shows that somehow, entirely beyond the understanding of social engineers, the striving for freedom, with the help of economic laws, sometimes overcomes the short-lived material desires, and the project “from everyone according to the abilities, to everyone according to the needs” fails.

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